

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
STATEMENT OF POLICY**

**FOR  
REPRESENTATION ON CORPORATE BOARDS OF DIRECTORS**

**March 1998**

*This document is effective immediately upon adoption, augments existing Statements of Incompatible Activities for CalPERS Board members and Staff, and supersedes all other policies pertaining to representation on corporate boards of directors.*

**I. PURPOSE**

This Policy sets forth the circumstances under which the California Public Employees' Retirement System ("the System") considers seeking direct representation on the board of directors of a corporation in which the System invests. This Policy also addresses the System's indirect participation on corporate boards, by providing input into the director nomination process. Lastly, the Policy acknowledges Board members' and Staff's rights to engage in corporate board activities outside of their roles with the System, to the extent those activities are compatible with their System roles.

**II. RESPONSIBILITIES**

Except as otherwise specified within this document, the System's Chief Executive Officer is responsible for implementing these policies and procedures, and for making further delegations to subordinate Staff as necessary.

**III. POLICY & PROCEDURES**

**A. Direct System Representation on a Corporate Board**

1. For purposes of this policy, "direct System representation" means that the corporate director (or director nominee) is a System representative. A System representative considered one or more of the following:
  - a. A System Board member
  - b. A member of the System's staff

- c. A person retained by the System to undertake the corporate representation, and contractually charged with fiduciary duties to the System's participants.
- 2. The System shall neither accept nor seek the election of a System representative to the board of directors of a corporation in which the System invests except in either of the following circumstances:
  - a. The level or structure of the System's stock ownership in the corporation is such that the System shall likely, in the opinion of legal counsel, be deemed by the Securities and Exchange Commission or the courts a "controlling shareholder" or otherwise have a fiduciary duty to the corporation.
  - b. In the opinion of the System's Investment Committee, after consultation with investment and legal experts, the benefits of the System's direct representation on the corporate board outweigh the risks of increased liability exposure, potential conflicts of interest, and trading restrictions.

By way of illustration only (and without limiting the Investment Committee's consideration of this issue), the Investment Committee may rely upon this cost/benefit analysis to decide to seek direct System corporate board representation as part of the System's Corporate Governance program.

- 3. The decision concerning seeking or accepting direct corporate board representation for the System is expressly not delegated and remains solely with the Investment Committee.
- 4. If a System representative is elected or appointed to a corporate board of directors, that representative will face potentially dual fiduciary duties. The System representative shall at all times be mindful of the potential conflict of interest, and shall recuse himself or herself from decisions by either the corporation or the System in situations where an actual conflict exists.
  - a. When making the decision about seeking or accepting direct System representation, and in

designating the appropriate System representative, the Investment Committee shall consider (among other issues) the impact upon the System of a recusal by the System representative.

- b. The Board's General Counsel shall ensure that the System representative has access to the Board's outside fiduciary and securities counsel for advice and consultation regarding potential conflict issues.
- c. The System representative shall accept no compensation from the corporation for being a director. The System shall directly receive any director fees or other compensation paid by the corporation to directors, according to the corporation's standard director compensation policies.

**B. Indirect System Representation on a Corporate Board**

- 1. For purposes of this policy, "indirect System representation" means all involvement by the System in the process of nominating or electing corporate directors, other than the following:
  - a. Direct System representation, as defined in section II.A., above; or
  - b. Voting the System's proxy, or encouraging other shareowners to vote their proxies in a particular manner; or
  - c. Encouraging corporations to utilize the services of third-party organizations that are expert at locating diverse and qualified director nominees.
- 2. The System shall have no indirect representation on the board of any corporation.

**C. Unrelated Representation on a Corporate Board by the System's Board or Staff**

The System's Board or Staff members may seek or accept positions on corporate boards, where those positions are unrelated to the official's System role and when in compliance with both the Political Reform Act (Gov. Code sec. 81000 et seq.) and the System's Statements of Incompatible Activities.